Joint Committee on Taxation
April 4, 1986
JCX-3-86

Estimated Revenue Effects of Tax Reform Provisions Contained in the President's Proposal, the House Bill (H.R. 3838), and the Finance Committee Chairman's Proposal for Fiscal Years 1986-1991*

[Billions of Dollars]

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
I.—INDIVIDUAL INCOME TAX PROVISIONS			
A. Basic Rate Structure:			
Tax rate schedules (includes capital gains)	-224.6	-134.2	-131.4
Zero bracket amount (standard deduction)	-17.9	-32.6	-51.9
Personal exemption and repeal of additional exemption for the elderly and blind	-163.5	-147.5	-156.3
Floor under itemized deductions	P/L	40.9	P/L
Limitation on tax-liability reduction for highest-bracket individuals attributable to personal exemptions and certain itemized deductions	P/L	P/L	21.1
Two-earner deduction	24.8	27.0	27.1
Earned income credit	-7.6	-11.8	-12.6
Income averaging	4.0	6.3	7.9

P/L Present Law
— No revenue effect

*NOTES: Estimates for the President's proposal and House Bill were based on earlier economic forecasts and were estimated for fiscal years 1986-90 only. Therefore, figures are not being provided as current revenue estimates, but for "order of magnitude" comparisons only.

Estimates reflect changes in income taxes, excise taxes, and employment taxes. Outlay effects as well as revenue changes are included.

Estimates assume the enactment of the Consolidated Omnibus Budget Reconciliation Act of 1985 (H.R. 3128); thus, provisions in H.R. 3128 that were listed in the comparative spreadsheet prepared for the Finance Committee tax reform markup (JCS-8-86) have been deleted from these estimates.

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Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
B. Tax Treatment of the Elderly and Disabled:			
Credit for the elderly	-4.3	P/L	P/L
Unemployment compensation	2.3	2.3	3.2
Worker's compensation and black lung disability	4.6	P/L	P/L
C. Scholarships and Fellowships	0.6	0.6	0.6
D. Deductions for Personal Expenditures:			
Itemized deduction for certain State and local taxes	111.8	P/L	19.8
Charitable deduction for nonitemizers	2.5	-2.5	-6.9
Adoption expenses	(1)	(1)	P/L
Deductibility of mortgage interest and taxes allocable to tax-free allowances for ministers and military personnel	P/L	(2)	(2)
E. Expenses for Business or Investment:			
Travel and entertainment expenses	6.1	11.4	12.1
Employee business expenses, investment expenses and other miscellaneous itemized deductions	7.1	13.2	14.7
F. Political Contributions Tax Credit	1.1	0.5	P/L
G. Presidential Campaign Checkoff	—	P/L	P/L
Subtotal: Individual Income Tax Provisions			-252.7
II.—ACCELERATED COST RECOVERY SYSTEM AND INVESTMENT TAX CREDIT			
A. Depreciation:			
Accelerated (incentive) depreciation system	32.0	41.1	24.8
Indexing	-11.7	—	-4.3
Gain on disposition	0.6	(1)	0.3
Expensing	1.4	-1.3	-22.9
Transition rules	—	-13.4	-2.2
Subtotal: Depreciation			-4.3
B. Windfall Recapture of Excess Accelerated Depreciation	47.6	P/L	P/L
C. Regular Investment Tax Credit:			
Allowable credit	130.3	130.3	171.3
Transition rules	—	-10.0	-24.1

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
D. Mandatory Refund of Unused ITC Carryovers	P/L	P/L	-0.6
E. Finance Leases	P/L	0.9	1.4
F. Multi-Family Residential Rental Housing Provisions	—	-0.8	(3)
Subtotal: ACRS and ITC			**143.9**
III.—ACCOUNTING			
A. Simplified Dollar Value LIFO Method for Certain Small Businesses	P/L	-2.5	-2.7
B. Limitations on the Use of the Cash Method of Accounting	4.0	2.7	3.4
C. Installment Sales	2.6	5.7	6.3
D. Capitalization of Inventory, Construction, and Development Costs:			
Inventory	11.5	14.0	18.4
Self-constructed property and noninventory property produced for sale	4.4	4.7	4.8
Long-term contracts	5.6	14.7	5.5
Interest	10.3	11.0	11.1
E. Special Treatment of Certain Items:			
Reserves for bad debts	4.4	7.2	7.2
Returns of magazine, paperbacks, and records	0.1	P/L	P/L
Qualified discount coupons	0.1	P/L	0.1
Subtotal: Accounting			**54.2**
IV.—CAPITAL GAINS			
A. Individual Capital Gains	(4)	(4)	(4)
B. Corporate Capital Gains	P/L	(4)	P/L
C. Incentive Stock Options	P/L	P/L	(5)
D. Small Business Participating Debentures	P/L	P/L	-1.4

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
E. Straddles	P/L	P/L	0.4
Subtotal: Capital Gains			-1.0
V.—COMPLIANCE AND TAX ADMINISTRATION			
A. Increased Penalties:			
Penalties relating to information returns	(1)	(1)	(1)
Penalty for failure to pay taxes	1.8	1.5	1.5
Negligence and fraud penalties	P/L	(1)	(1)
B. Interest Provisions:			
Interest rate	P/L	1.4	1.7
Underpayments of accumulated earnings tax	P/L	(1)	(1)
Interest on tax refunds	P/L	P/L	-0.2
C. Information Reporting Provisions:			
Reporting on real estate transactions	P/L	1.0	1.0
Reporting on persons receiving Federal contracts	P/L	0.1	0.1
Reporting of State and local income and property taxes paid by individuals	P/L	0.2	(1)
Tax-exempt interest required to be shown on tax returns	P/L	(1)	P/L
D. Suspend Statute of Limitations During Prolonged Dispute with Third Parties	P/L	P/L	(1)
E. Tax Shelters:			
Tax shelter user's fee	P/L	P/L	0.8
Tax shelter registration	P/L	P/L	(5)
Penalty for failure to register a tax shelter	P/L	P/L	(1)
Penalty for failure to report the tax shelter identification number	P/L	P/L	(1)
Penalty for failure to maintain lists of investors	P/L	P/L	(1)
Tax shelter interest	P/L	P/L	0.4
F. Estimated Tax Payments by Individuals	P/L	1.8	1.8
G. Tax Litigation and Tax Court:			
Awards of attorneys fees in tax cases	P/L	(2)	(2)

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
Exhaustion of administrative remedies	P/L	(1)	P/L
Tax Court provisions	P/L	P/L	(2)
H. Tax Administration Provisions:			
Authority to rescind statutory notice of deficiency	P/L	—	—
Authority to abate interest due to errors or delays by the IRS	P/L	(2)	(2)
Suspension of compounding where interest on deficiency is suspended	P/L	(2)	(2)
Exemption for levy for service-connected disability payments	P/L	(2)	(2)
Modification of administrative rules applicable to forfeiture	P/L	(1)	P/L
Certain recordkeeping requirements	P/L	(1)	P/L
I. Modification of Employee Withholding Allowance Forms	P/L	(1)	(1)
J. Report on Return-Free Tax System	—	—	—
K. Decrease Period of Tax Deferral for Trusts	P/L	P/L	1.7
L. Payment of Income Taxes of Estates	P/L	P/L	0.9
Subtotal: Compliance and Tax Administration			9.7
VI.—CORPORATE AND GENERAL BUSINESS TAXATION			
A. In General:			
Corporate tax rates (includes capital gains)	-91.7	-87.8	-108.7
Corporate dividends paid deduction	-16.3	-2.4	P/L
Corporate dividends received deduction	P/L	1.2	1.1
Dividend exclusion for individuals	2.2	2.6	2.9
Stock redemption payments	P/L	—	—
Limitations on net operating loss (NOL) carryovers	P/L	0.4	0.2
Recognition of gain or loss on liquidating sales and distributions	P/L	2.2	2.6
Modification of merger and acquisition rules	P/L	P/L	(2)
Miscellaneous subchapter C changes	P/L	P/L	(1)
Extraordinary dividends received by corporate shareholders	P/L	P/L	0.2
Ordinary income treatment on sales between related entities	P/L	P/L	(2)
Holding period requirement for dividends received deduction	P/L	P/L	(1)
Amortizable bond premium	P/L	P/L	(1)

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
B. Rapid Amortization Provisions:			
5-year amortization of trademark and tradename expenditures	0.1	0.1	0.1
5-year amortization of pollution control facilities	(1)	(1)	(1)
50-year amortization of qualified railroad grading and tunnel bores	(1)	(1)	(1)
Deduction for loss in value of bus-operating authorities	P/L	P/L	(2)
C. Deductibility of Federal Excise Taxes and Tariffs	P/L	P/L	62.6
D. Other Capital-Related Costs:			
Marine Capital Construction Fund	0.4	(1)	(1)
Limitation on business tax credits	P/L	1.3	0.1
Contributions in aid of construction	P/L	0.5	0.6
Subtotal: Corporate and General Business Taxation			-38.1
VII.—ENERGY, AGRICULTURE, TIMBER, AND NATURAL RESOURCES			
A. Agricultural Provisions:			
Special expensing provisions	0.4	0.3	0.2
Farming and ranching costs	0.9	0.5	P/L
Treatment of certain plant variety protection certificates as patents	P/L	(2)	P/L
Dispositions of converted wet lands and highly erodible croplands	P/L	(1)	(1)
Prepayments	P/L	P/L	0.1
B. Timber and Ornamental Trees:			
Reforestation expenses	(1)	(1)	P/L
Expenses of growing timber and ornamental trees	2.2	3.7	P/L
C. Capital Gains for Coal, Iron Ore, and Timber:			
Capital gain treatment for coal and domestic iron ore royalties	0.4	0.3	P/L
Capital gain rules applicable to timber	0.9	0.9	P/L
D. Hard Minerals:			
Exploration and development costs	P/L	0.2	(1)
Depletion of hard minerals	1.7	1.4	P/L
Mining and solid waste reclamation costs	0.2	P/L	P/L
Gain on disposition of interest in mining property	(1)	(1)	P/L

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
E. Oil and Gas:			
Intangible drilling costs	P/L	1.2	(1)
Depletion for oil and gas	2.0	3.0	P/L
Gain on disposition of interest in oil, gas, or geothermal property	(1)	(1)	P/L
F. Energy-Related Tax Credits and Other Incentives:			
Residential energy tax credits	P/L	-0.4	-0.6
Business energy tax credits	P/L	-0.1	-0.7
Credit for fuels from nonconventional sources	(1)	(1)	(1)
Alcohol fuels credit and tax exemptions; import duty	(1)	(2)	(2)
G. Gift & Estate Tax Deductions for Certain Conservation Easement Donations	P/L	P/L	(2)
Subtotal: Energy, Agriculture, Timber, and Natural Resources			-1.0
VIII.—EXCISE AND EMPLOYMENT TAXES			
A. Excise Taxes:			
Increase in wine excise tax rates to beer tax equivalent rate	P/L	P/L	1.5
Adjust alcohol, tobacco, and fuel excise tax rates to reflect increases in price	P/L	P/L	11.2
Collection of diesel fuel tax	P/L	(1)	P/L
Taxicab fuels tax exemption	P/L	(2)	P/L
Windfall profit tax exemption for exchanges of crude oil	P/L	(5)	P/L
B. Employment Taxes:			
FUTA tax (for agricultural wages)	P/L	P/L	-0.1
Subtotal: Excise and Employment Taxes			12.5
IX.—FINANCIAL INSTITUTIONS			
A. Reserve for Bad Debts:			
Commercial banks	2.1	2.5	3.5
Thrift institutions	2.0	0.8	0.9
B. Interest on Debt Used to Purchase or Carry Tax-Exempt Obligations	0.4	0.3	1.3

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
C. Reorganizations of Financially-Troubled Thrift Institutions	—	1.4	0.4
D. Credit Unions	1.3	P/L	P/L
E. Special Rules for Net Operating Loss Carryovers of Depository Institutions	(1)	(1)	-1.4
F. Treatment of Losses on Deposits in Insolvent Financial Institutions	P/L	(2)	P/L
Subtotal: Financial Institutions			4.7
X.—FOREIGN TAX PROVISIONS			
A. Foreign Tax Credit:			
Foreign tax credit limitation	9.3	2.1	1.9
Credit for taxes in lieu of income taxes	P/L	2.1	1.8
Effect of losses on foreign tax credit	(6)	0.1	0.1
Deemed-paid credit	(6)	0.3	0.3
B. Source Rules:			
Income derived from purchase and sales of inventory-type property	3.5	0.3	(1)
Income from manufacture and sale of inventory-type property	(6)	1.4	(1)
Income from the sale of intangible property	(6)	(1)	(1)
Income derived form sale of other personal property	(6)	(1)	(1)
Transportation income	(6)	0.6	0.6
Other offshore income and income earned in space	(6)	(1)	(1)
Dividend and interest income	(6)	0.1	(1)
Allocation of interest and other expenses	(6)	3.3	1.4
C. U.S. Taxation of Income Earned Through Foreign Corporations:			
Tax haven income subject to current tax	P/L	1.5	0.5
Application of accumulated earnings tax and personal holding company tax to foreign corporations	P/L	(1)	(1)
D. Special Tax Provisions:			
Possession tax credit	0.1	0.3	0.2
Other rules with respect to U.S. possessions	(1)	(1)	(1)
Taxation of U.S. employees of Panama Canal Commission	P/L	(1)	(1)
Foreign Sales Corporations (FSCs)	P/L	0.6	P/L

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
Private sector earnings of Americans abroad	P/L	0.2	P/L
Transfers of intangibles to related parties outside of the U.S.	P/L	0.3	P/L
Compliance provisions applicable to U.S. persons resident abroad	P/L	P/L	(1)
Foreign investment companies	P/L	0.1	0.1
E. Foreign Taxpayers:			
Branch-level tax	(1)	0.1	0.2
Retain character of effectively connected income	P/L	(1)	(1)
Tax-free exchanges by expatriates	P/L	(1)	(1)
Excise tax on insurance premiums paid to foreign insurers	P/L	0.2	P/L
Foreign investment in U.S. business assets	P/L	P/L	0.4
Withholding tax on interest paid to foreign persons	P/L	P/L	0.3
Reporting by foreign-controlled U.S. corporations	P/L	P/L	(1)
Foreign investors in U.S. partnerships	P/L	P/L	(1)
Income of foreign governments	P/L	P/L	0.2
Transfer prices for imports (sec. 482)	P/L	P/L	(1)
Dual resident companies	P/L	P/L	0.2
Interest paid to related tax-exempt parties	P/L	P/L	0.1
F. Foreign Currency Exchange Gain or Loss	(1)	0.1	(1)
Subtotal: Foreign Tax Provisions			8.2
XI.—INSURANCE PRODUCTS AND COMPANIES			
A. Insurance Products:			
Life insurance products	0.2	—	—
Other policyholder issues	(1)	(1)	(1)
B. Life Insurance Companies:			
Reserves	2.0	P/L	P/L
Special deductions	3.5	3.5	3.6
Tax-exempt entities engaged in insurance activities	P/L	1.8	P/L
Operations loss deduction of insolvent companies	P/L	(2)	(2)
C. Property and Casualty Insurance Companies:			
Reserve deductions	4.8	4.8	5.9
Policyholder dividend deduction for mutual companies	(1)	—	P/L

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
Protection against loss account for mutual companies	0.4	0.4	0.4
Special exemptions, rates, and deductions of small mutual companies	(1)	-0.2	-0.1
Subtotal: Insurance Products and Companies			9.9
XII.—INTEREST EXPENSE			
A. Nonbusiness Interest Limits: Interest subject to limitation	2.4	0.4	10.4
B. Deduction for Interest on Loans to Make IRA Contributions	P/L	P/L	(1)
Subtotal: Interest Expense			10.4
XIII.—MINIMUM TAX			
A. Individual Minimum Tax	1.6	19.1	24.9 (7)
B. Corporate Minimum Tax	10.4	5.8	20.9 (7)
Subtotal: Minimum Tax			45.9
XIV.—PENSIONS AND DEFERRED COMPENSATION; EMPLOYEE BENEFITS; ESOPs			
A. Treatment of Tax-Favored Savings:			
Individual retirement accounts (IRAs)	-3.6	(2)	(2)
Qualified cash or deferred arrangements (sec. 401(k) plans)	15.9	4.7	-0.4
Employer matching contributions and employee contributions	(6)	(6)	(6)
Unfunded deferred compensation arrangements of State and local governments and tax-exempt employers	(1)	(1)	(1)
Deferred annuity contracts	1.2	0.2	0.2
Elective contributions under tax-sheltered annuities	P/L	0.3	0.2
Special rules for simplified employee plans	P/L	P/L	-0.2
B. Minimum Standards for Qualified Plans:			
Nondiscrimination rules	(2)	(2)	(2)
Benefit forfeitures	(2)	(2)	(2)
Vesting	P/L	P/L	(2)

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
C. Withdrawal of Benefits:			
Uniform minimum distribution rules	(1)	(1)	(1)
Withdrawals before age 59-1/2	1.9	2.1	2.1
Uniform tax treatment of distributions	10.6	8.1	8.0
Loans under qualified plans	(1)	(1)	(1)
D. Tax Deferral Under Qualified Plans:			
Overall limits on contributions and benefits	-0.9	1.8	0.1
Deductions for contributions to qualified plans	0.2	0.2	0.2
Asset reversions under qualified plans	0.1	0.1	0.1
E. Miscellaneous Pension and Deferred Compensation Provisions:			
Plan amendments not required until January 1, 1988	P/L	—	—
Discretionary contribution plans	P/L	(2)	(2)
Requirement that collective bargaining agreement be bona fide	P/L	(1)	(1)
Penalty for overstatement of pension liabilities	P/L	(1)	P/L
F. Employee Benefits:			
Statutory employee benefit exclusions:			
Employee benefits	12.4	-0.5	-2.2
Health insurance for self-employed individuals	P/L	P/L	-3.2
Nondiscrimination requirements for employee benefit plans	0.5	0.6	0.6
Benefits provided under a cafeteria plan	(1)	(1)	(5)
Prizes and awards	(1)	(1)	(1)
Accrued vacation pay	P/L	0.2	0.2
Faculty housing	P/L	P/L	(2)
Health benefits for retirees	P/L	P/L	-0.1
G. Employee Stock Ownership Plans (ESOPs):			
ESOPs as employee benefit plans	(1)	(1)	P/L
Incentives for ESOP financing	0.1	5.8	P/L
Subtotal: Pensions and Deferred Compensation; Employee Benefits; ESOPs			5.9
XV.—RESEARCH AND DEVELOPMENT			
A. Expensing of R&E Expenditures; Incremental Research Tax Credit:			
Expensing	P/L	P/L	P/L
Incremental tax credit	-4.6	-3.7	-9.3
Donations of scientific equipment	P/L	(2)	P/L

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
B. Allocation of Research Expenses to Foreign Source Income	P/L	-0.5	-0.7
C. Personal Holding Companies	P/L	-0.1	(2)
D. University Basic Research Credit	P/L	-0.3	-0.5
Subtotal: Research and Development			-10.5
XVI.—REAL ESTATE PROVISIONS			
A. At-Risk Rules	0.1	(1)	(1)
B. Tax Credit for Rehabilitation Expenditures	7.2	4.0	4.3
C. Low-Income Housing:			
5-year amortization of expenditures to rehabilitate low-income housing	(1)	(2)	P/L
Credit for low-income rental housing	P/L	P/L	-1.1
D. Real Estate Investment Trusts	P/L	P/L	-0.1
Subtotal: Real Estate Provisions			3.2
XVII.—TAX-EXEMPT BONDS			
A. General Restrictions on Tax-Exemption	(8)	(8)	(8)
B. Tax-Exempt Bonds for Certain Nongovernmental Activities:			
Industrial development bonds	(8)	(8)	(8)
Student loan bonds	(8)	(8)	(8)
Mortgage revenue bonds	(8)	(8)	(8)
Tax-exempt bonds for section 501(c)(3) organizations	(8)	(8)	(8)
Qualified redevelopment bonds	(8)	(8)	(8)
Miscellaneous restrictions on tax-exempt bonds	(8)	(8)	(8)
C. Volume Limitations on Nongovernmental Bonds	14.3	4.0	-3.6
D. Arbitrage Restrictions:			
Profit limitations and determination of bond yield	0.1	0.1	0.1

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
Prohibition of advance refundings	0.6	0.2	(1)
Restriction on early issuance of bonds	0.1	0.1	P/L
E. Information Reporting Requirement for All Tax-Exempt Bonds	—	—	—
F. Special Transitional Exceptions	P/L	-1.3	P/L
G. General Stock Ownership Corporations (GSOCs)	—	—	—
Subtotal: Tax-Exempt Bonds			-3.5
XVIII.—TRUSTS AND ESTATES; GENERATION-SKIPPING TRANSFERS			
A. Unearned income of a minor child	1.2	1.4	0.5
B. Income Taxation of Trusts and Estates:			
Trusts other than grantor trusts	1.1	0.6	1.0
Taxation of trusts after the death of the grantor	(1)	(1)	P/L
Taxation of distributions to beneficiaries	(1)	(1)	P/L
Taxation of previously accumulated income	(1)	(1)	P/L
Grantor trusts	0.1	0.1	0.1
Estates	0.6	0.2	0.2
C. Generation-Skipping Transfer Tax:			
Taxable transfers	(1)	(2)	P/L
Exemption from tax	(2)	(2)	P/L
Tax rate	(2)	(2)	P/L
Credit for State taxes	(2)	(2)	P/L
Subtotal: Trusts and Estates; Generation-Skipping Transfers			1.7
XIX.—MISCELLANEOUS PROVISIONS			
A. Expiring Provisions:			
Tax credit for orphan drug clinical testing	P/L	(2)	P/L
Expensing of costs of removing architectural barriers to the handicapped and elderly	P/L	(2)	-0.1
Rules for spouses of Vietnam MIAs	P/L	(2)	(2)
Targeted jobs tax credit	P/L	-0.9	-1.1

Provision	President's Proposal 1986-1990	House Bill 1986-1990	Chairman's Proposal 1986-1991
B. Olympic Trust Fund and Excise Tax	P/L	(1)	(1)
C. Exempt Organizations:			
Exchanges and rentals of membership lists of certain tax-exempt organizations	P/L	(2)	-0.1
Distribution of low-cost articles by charities	P/L	(6)	(6)
Tax exemption for certain title-holding companies	P/L	P/L	(2)
D. Allocation of Housing Cooperative Interest and Taxes	P/L	(2)	(2)
E. Foster Care Payments	P/L	(2)	(2)
Subtotal: Miscellaneous Provisions			-1.2
GRAND TOTAL			2.1

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(1) Gain of less than $50 million.
(2) Loss of less than $50 million.
(3) The impact of this provision is included in the estimate for item XVI. C. (Credit for low-income rental housing).
(4) The effects of changes relating to capital gains are included with individual and corporate rate changes (Parts I. A. and VI. A.).
(5) Negligible.
(6) Estimate for this provision is included in the preceding item.
(7) The preference for tax-exempt interest is assumed not to apply with respect to bonds issued before January 1, 1987.
(8) The impact of this provision is reflected in item C. XVII. (Volume Limitations on Nongovernmental Bonds).